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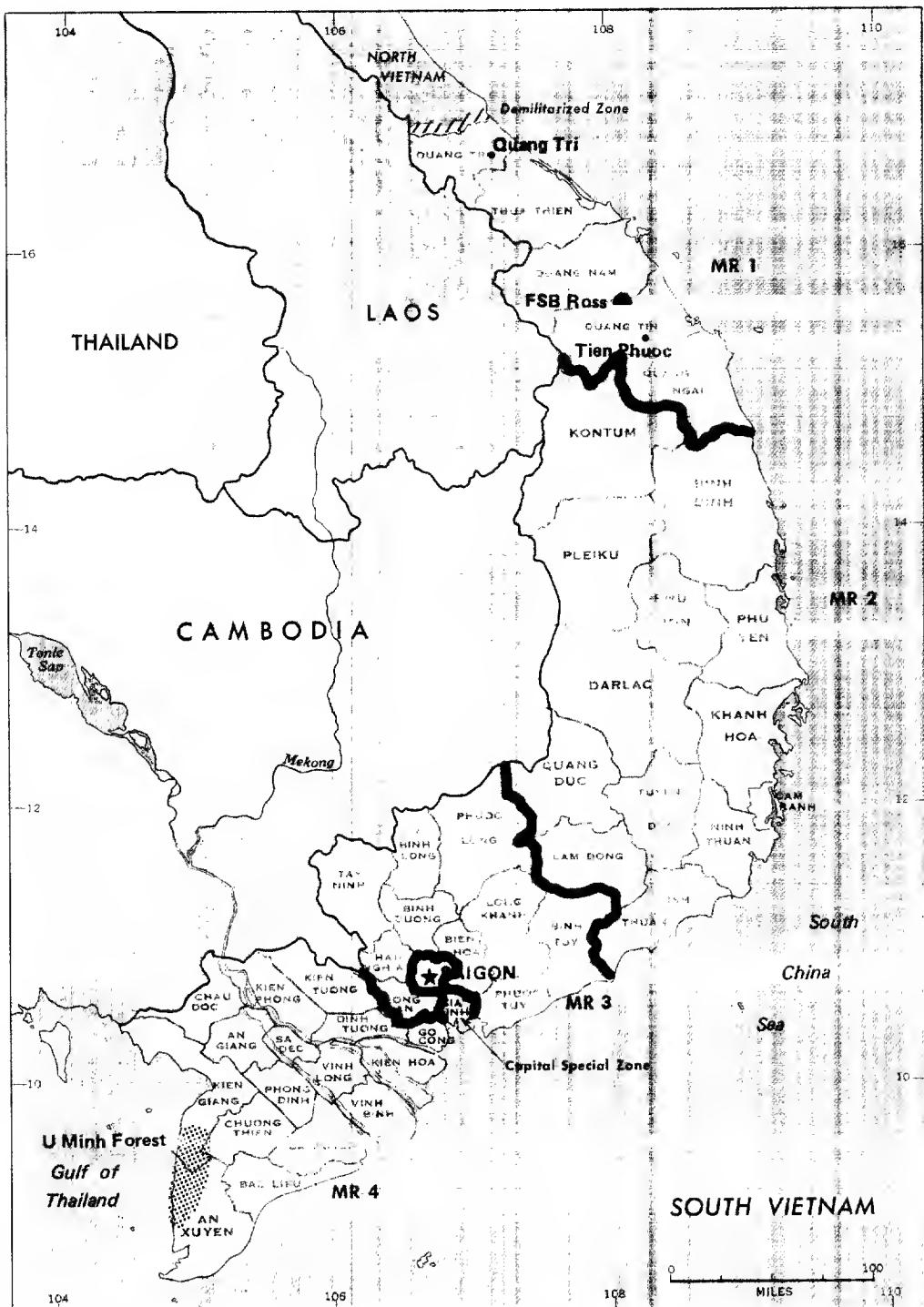
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VIETNAM: Government forces attempting to re-take the citadel in Quang Tri City are encountering intense resistance from Communist infantry and artillery.

Several hundred South Vietnamese Marines reportedly have fought their way into the citadel and are holding positions near the eastern and southern walls, despite heavy artillery and mortar barrages. Three or four marine battalions outside the citadel have advanced to within 200 yards of its outer wall on three sides. The marines claim to have killed about 200 enemy while taking only light casualties. On the southern outskirts of Quang Tri City near the river, there was a sharp firefight which resulted in the destruction of four enemy boats.

Government forces operating near Fire Support Base Ross in Quang Nam Province engaged the Communists in several minor skirmishes. In the Tien Phuoc area of Quang Tin Province, enemy pressure forced South Vietnamese units to withdraw farther to the east from the district town.

Activity was light and scattered in Military Region 3, where the Communists attacked isolated government outposts. One outpost in Bien Hoa Province was struck by fifty rounds of mortar fire on both 12 and 13 September. In the delta, there was a sharp increase in Communist activity primarily directed against small outposts. Most of this activity took place in the provinces that border on the U Minh Forest. In Chuong Thien Province, alone, more than a dozen outposts were attacked and communications have been lost with half of them. Several outposts in Kien Giang Province reportedly have fallen to the Communists. [redacted]

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JAPAN: Tokyo hopes to offset expected criticism of its foreign economic policies at meetings of major international economic organizations later this month by pledging a reduction in Japan's huge trade surplus.

Japan intends to announce a goal of reducing its current account surplus from the current 2.5 percent-share of gross national product to a one percent-share by 1975. To help achieve this target, a plan to reduce the trade gap has been promised by the end of the month. Its main thrust reportedly will be the "voluntary" restraint of exports.

Even if Tokyo realizes its goal, the trade surplus will approach \$7 billion in 1975, larger than any year so far except for the \$7.8 billion in 1971. In view of Tokyo's failure in recent years to effectively pursue other programs designed to correct the trade imbalance, other major trading partners are unlikely to view this latest plan as an adequate remedy. Moreover, Tokyo apparently remains unwilling to change quickly practices that hold down import growth, despite long-standing complaints from the US, and recently rising criticism from West European countries.

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UK: Prospects for increased inflation will be heavily influenced by the outcome of talks that resume today in London among government officials, labor leaders, and businessmen.

The outlook is not encouraging. The strong position of left-wing members within the Trade Unions Congress will make it difficult for the labor representatives to agree to any meaningful restraints on wages. Barring agreement, unions will feel no inhibition in continuing demands for sizable wage increases, thereby stimulating further inflation. More rapid inflation would pose a threat to the UK's international competitive position, especially starting next year when Britain will be exposed increasingly to competition from other Common Market countries as tariffs are mutually reduced.

While Britain is currently experiencing its lowest rate of inflation in two years, the potential for increased inflation is strong. Labor contracts are soon to be renegotiated in several key public sector industries, including power, railways, and mining, where there could be wage settlements substantially above the government's norm of nine percent. Moreover, unless there are signs of progress in the area of wage restraint, the Heath government will have difficulty obtaining an extension of the Confederation of British Industries' voluntary price restraint commitment beyond its 31 October termination date.

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INDIA: Lagging industrial production remains a serious problem and government moves to clarify economic policies may have only a limited impact.

Prime Minister Gandhi has called for a militant national effort to overcome disappointing economic progress. Her appeal follows an announcement by the minister for Industrial Development and Mines that a new industrial policy is being formulated. It apparently will be designed to allay private sector fears of government intervention in the private sector that have curbed industrial expansion. The program reportedly will specify those industries that are to be included in the public sector and those that are to remain private. Where government and private industry participate in joint activities, private management will be retained.

Some uncertainty in the private business community, however, remains. The government has not reversed its long-term commitment to reduce the concentration of economic power and dependence on foreign funds. Furthermore, New Delhi does not intend to ease significantly the tight industrial licensing policy for the country's largest industrial firms and private foreign investors. These policies, which have held back licenses to those firms intending to expand production, have thwarted efforts to get the industrial sector moving rapidly again.

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TURKEY: General Gurler, the new chief of the general staff, is consolidating his position, possibly as a prelude to a more active role in politics.

Gurler's appointment as chief of staff last month was preceded by intense controversy in military and political circles. President Sunay and previous chief of staff Tagmac reportedly attempted to balance Gurler's appointment by filling other key military positions with officers who are loyal to them and presumably less "interventionist."

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Gurler now has begun to weed out as many of these Sunay/Tagmac supporters as he legally can, replacing them with his own men. The process may involve as many as 25 high-ranking officers.

Although the reassessments may also be designed to improve efficiency in the army, they seem certain to increase concern among Turkish political leaders that Gurler is laying the groundwork for greater military intervention in politics. He has a reputation for political activism, is an ardent reformist, and reportedly has ambitions to succeed to the presidency. Turkey's normally fractious politicians, anxious to lay the groundwork for elections next fall, have been working together with relative effectiveness in an effort to hammer out electoral reforms. They undoubtedly fear that strong pressure from Gurler to speed up the reforms could disrupt their efforts, and possibly even delay the elections.

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CHINA-JAPAN: Peking has agreed to make its first known purchase of an off-shore petroleum drilling rig from Japan at a price of almost \$9 million, according to press reports. The equipment, capable of drilling to 15,000 feet in water depths up to 175 feet, probably will be used in the Gulf of Chih-li where the prospects for development of commercial oil production are considered very good. Thus far in the Gulf China has undertaken only limited off-shore drilling in shallow waters. In addition to improving significantly China's off-shore drilling capability, the rig could provide a prototype for domestic manufacture of similar equipment. The equipment, which includes the rig, a utility vessel, and an 18-month supply of spare parts, is to be delivered early next year.

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IRAQ-USSR: Iraqi President Bakr will arrive in Moscow today accompanied by a large delegation. Topics of discussion will probably include Soviet military and economic assistance and Soviet mediation efforts between Baghdad and Kurdish dissidents. Soviet-Iraqi relations have been warming during the past year and the Soviets will hope to strengthen their foothold in Iraq in the wake of their setback in Egypt. One of Bakr's primary concerns will be to obtain assurances of continued Soviet assistance in marketing Iraq's oil production, some of which was nationalized three months ago.

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CHILE: Chile's largest remaining private company--a manufacturer of paper products--has announced that it is unable to make payments that are already overdue on outstanding debts to foreign governments and international financial institutions. The firm owes a total of \$17 million to West Germany, Canada, Sweden, the Inter-American Development Bank, and the International Bank for Reconstruction and Development. The company, apparently the victim of a deliberate government policy of financial strangulation, has been forced to cover sharp increases in wages and other costs largely out of profits and reserves. Although the firm's public threat to default may be an effort to obtain permission to raise its prices and to secure more favorable credit treatment, it will further undermine the confidence of Chile's creditors.

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KOREA: A Review of the Negotiations and Their Prospects

The dialogue between North and South Korea which has evolved over the past year took on tangible meaning for the South Korean populace this week as representatives from Pyongyang arrived in Seoul for the second plenary session of the Red Cross talks on uniting divided families. Much interest, however, will remain focused on the prospect of higher level negotiations stemming from the 4 July communiqué in which both sides pledged to work toward national unification without foreign intervention or the use of force while transcending differences in ideas, ideology and system. The prospect that this agreement will lead to meaningful political accommodation in the near future is extremely slim, however, because both sides remain dedicated to using the dialogue to further political objectives that are fundamentally competitive and incompatible.

The two governments are, nonetheless, embarked on a course that will be difficult to reverse and which has already eased tensions on the peninsula and set in motion steps toward humanitarian, cultural and economic cooperation. Popular expectations have been raised as never before and the action has generally moved both Koreas in directions favored by the major powers. The continuation and broadening of the contact may, moreover, eventually have a softening effect on the rigid political and ideological differences that continue to divide the two countries.

The Path to Dialogue

The willingness to enter a dialogue and end the harsh rhetoric of more than two decades did not come quickly or easily for either side. The changing political climate in East Asia brought about by the Guam doctrine, the Sino-US detente, and Peking's entry into the UN were catalysts in moving both

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Koreas toward a more flexible and accommodating posture. Although Seoul and Pyongyang had at various times in the past twenty years advanced proposals for bilateral negotiations--basically for propaganda reasons--the two had never seemed interested in serious exploration of an accommodation that could moderate their expensive and at times explosive confrontation. By early 1970, however, both were forced to the realization that some change was in order.

Underlying Pyongyang's shift in tactics was the recognition that its efforts to foment revolution in the South through a combination of terrorism, subversion, and guerrilla raids had been counterproductive. Not only had these tactics failed, they had actually served to strengthen the hand of the South Korean adversary. The North Korean decision to shift to diplomatic and political pressure to draw Seoul into a political dialogue which could hopefully open the door to greater North Korean leverage in the South was influenced by China and the Chinese success in promoting a moderate foreign policy image. Pyongyang also hoped that greater flexibility and moderation would enable it to enhance its international acceptability and erode foreign recognition and support of South Korea.

It was the US decision to reduce its military involvement in Asia as well as the numerous signs of major power realignments in Asia that prompted Seoul to re-evaluate its rigidly anti-Communist international position. The South Koreans felt that the complete withdrawal of US forces would jeopardize their security in coping with a hostile North Korea and believed that moves to establish political contact with Pyongyang and other Communist states prior to US withdrawal would improve their long term position vis-a-vis Pyongyang. The 1971 presidential election gave considerable impetus to this assessment. The campaigning made it clear that there was also considerable popular sentiment in the South for opening contact with the North. Statements by President Pak Chong-hui in 1970 on the possibility of

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political contacts with the North may in fact have stimulated the North Koreans to move on similar political and propaganda lines.

President Pak moved cautiously, however, and waited until his re-election in the spring of 1971 before formulating plans for direct contact with the North. In August 1971, Seoul proposed talks between the Red Cross organizations of the two countries and Pyongyang promptly accepted. The meetings, which dragged on for more than nine months without substantive agreements, provided the opportunity for private discussions that eventually led to a secret high-level dialogue between personal representatives of the two leaders. Seoul, in the meantime, took steps to tighten domestic security to guard against efforts by Pyongyang to exploit the new mood of detente.

The Southern Perspective

In agreeing to enter into the public dialogue with the North, President Pak undertook several political risks. He has, in effect, tacitly recognized the North Korean regime, has agreed to principles that call into question the continuation of the UN and US presence in Korea, and has undercut the rationale for continuing repressive measures within the ROK. Seoul has moved rapidly to minimize these risks, however, by denying that the 4 July communiqué has any effect on the UN or US presence, and all levels of the government have issued statements calling for continued security and vigilance lest Pyongyang exploit the dialogue as a smokescreen to attack the South.

Pak, nonetheless, believes that the advantages the talks bring in terms of security, international standing, and his own domestic political prospects far outweigh the attendant problems. In particular, the President probably calculates that he is on much safer ground dealing with the North while US troops

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remain in South Korea and may hope that the existence of the talks can prolong that presence. Pak may also believe that the dialogue will enhance his image at home as a national leader acting boldly in an extremely delicate period and thus strengthen the case for extending his legal term of office.

Pak faces difficulties in balancing these conflicting factors. Some conservative elements within the military are concerned that the rapid pace of events will work to the disadvantage of the South, particularly if opposition political elements, students and intellectuals push for more rapid action. Popular reaction in general, however, has been highly favorable. Pak is cautious and has given every indication that he will ensure that these talks move only at a pace that will allow him to evaluate the effects of each step as it is taken. Both Pak and his principal negotiator, CIA Director Yi Hu-rak, have not gone beyond expressions of praise for the concept of unification and are carefully avoiding any public impression that they are considering serious discussion of political questions. They are also arguing that the existence of the talks should preclude discussion of the Korean Question at the forthcoming session of the UN General Assembly. For the moment, Seoul will use the dialogue to assess Pyongyang's good faith, and will try to evaluate North Korean willingness to make progress on practical issues associated with the Red Cross talks. It is doubtful that Seoul has a clear view of where the path leads from there. As its recent action in pushing the Red Cross talks to the plenary stage suggests, however, Seoul is fully capable of exploiting any propaganda opening provided by Pyongyang and this confidence in its ability to deal with the North Koreans is likely to grow as the dialogue matures.

The Outlook from Pyongyang

Pyongyang's immediate interest in entering negotiations is to gain de facto recognition from Seoul,

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enhance its international standing, end the UN role in Korea and terminate the US military presence on the peninsula. It has already moved with dispatch to use Seoul's adherence to the principle of unification "without reliance upon outside forces or its interference" to press for such action. It has coupled this tactic with a new and more flexible policy toward the UN, suggesting that the international body could play a constructive role in the unification process, while at the same time arguing that UN agencies operating in Korea must be dissolved and North Korea invited--without condition--to be present for UN consideration of the question. To bolster this position the North Koreans have prepared a new, ostensibly more moderate draft resolution to be tabled by their allies at the UN this month. The proposal is already attracting broader support than similar efforts made on Pyongyang's behalf in previous years.

The North Koreans are also attacking the US presence as a violation of the spirit of the 4 July communiqué and are intensifying their charges that the American troops are now the single major obstacle to meaningful progress toward unification. This is likely to become the principal theme in Pyongyang's propaganda over the next several months as the North Koreans intensify their pressure on the South to move the talks toward political issues.

At the same time, Pyongyang is pursuing longer range objectives in the South. The North Koreans have already pressed for expansion of the talks to include representatives of trade unions, political parties, and other social groupings. Pyongyang wants to broaden its contacts with South Korean society in order to exploit political differences that may exist or any military and economic problems that may arise. Premier Kim Il-sung has indicated that the process of dealing with the South and working toward unification will be a long one, and he clearly intends to use every opening provided by the present

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dialogue to expand Pyongyang's chances of influencing the political forces at work in the South. South Korea's ability over the past 20 years to resist Pyongyang's subversive efforts suggests that this will not be an easy task.

For the present, Kim appears to have some advantage in the dialogue. He can reasonably expect to see an erosion of Seoul's international position in the UN and eventual US military withdrawal. He can also continue to press for rapid movement to full scale political negotiations, knowing that the South Koreans will move in this direction only with the greatest caution. Moreover, Kim is better able to handle the domestic difficulties created by an ambiguous policy of broadened contact with the enemy while maintaining extremely tight security at home. This is not to say that by exposing the North Korean population to the South, Kim does not run some risk of weakening the underpinnings of his militant authoritarian state. Like President Pak, Kim has emphasized the threat of imminent attack. His capacity to insulate his people from the developments of South Korean society will be strained by the appearance of groups of South Koreans in the North even under the rigid Pyongyang security system.

The Road Ahead

As the talks move forward, Kim Il-sung is not apt to lose sight of his ambition of unifying Korea under his control. He may in fact be encouraged in this direction by a lessening of UN involvement in Korea and further US military withdrawals. Nonetheless, his prospects for achieving this end are heavily circumscribed by the demonstrated ability of the South to resist his blandishments--a factor which contributes to Seoul's increasing self-confidence in dealing with the North. In fact, Pyongyang may already be having some misgivings about its capacity to fully control the pace and direction of the discussions. Neither side, however, appears

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likely in the near term to take any action that would terminate the dialogue. Although significant results are unlikely to emerge at an early date, a continuation of the talks under present circumstances may, nonetheless, lead to various kinds of interim accommodations between the two countries.

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